

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 CIAE-00 INR-07

NSAE-00 FMC-02 OPIC-06 DLOS-09 FEA-01 ERDA-07

PA-02 PRS-01 ITC-01 FRB-01 L-03 NSC-05 STR-05

CEQ-01 XMB-04 /102 W

-----056057 151642Z /23

R 151235Z DEC 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1282

INFO AMEMBASSY ATHENS

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY HELSINKI

AMEMBASSY WARSAW

AMEMBASSY MOSCOW

AMEMBASSY TOKYO

USMISSION GENEVA

UNCLAS SECTION 01 OF 02 LONDON 20397

USEEC ALSO FOR EMBASSY; USOECD ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EWWT, IMCO

SUBJECT: MEETING OF INTERNATIONAL MARITIME INDUSTRIES  
FORUM (IMIF) IN LONDON

REF: (A) BRUSSELS 15772; (B) LONDON 20288

1. SUMMARY: REPRESENTATIVES OF MAJOR EUROPEAN AND  
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JAPANESE SHIPOWNERS, SHIPBUILDERS, OIL COMPANIES AND  
BANKERS MET IN THE IMIF NOV. 8, 1977, TO EXPLORE THE  
DIMENSIONS OF THE PROBLEMS STEMMING FROM THE WORLD  
TANKER GLUT. AN IMIF DINNER FOLLOWING THE MEETING WAS  
ALSO ATTENDED BY UK, FRG, AND US OFFICIALS. AT DINNER  
REAR ADMIRAL SIDNEY WALLACE, USCG, EXPLAINED THE US  
PROPOSALS IN THE INTERGOVERNMENTAL MARITIME CONSULTATIVE

ORGANIZATION (IMCO) ON TANKER SAFETY AND POLLUTION PREVENTION. THESE WERE SUBSEQUENTLY DISCUSSED BY THE GROUP, PARTICULARLY IN TERMS OF THEIR COMMERCIAL IMPLICATIONS FOR TANKER OPERATIONS AND SHIPYARDS. AN EXCHANGE OF VIEWS FOLLOWING DINNER UNDERLINED THAT GROWING PROBLEMS OF THE MARITIME INDUSTRY IN OECD COUNTRIES FROM THE TANKER SURPLUS COULD RESULT, THROUGH FINANCIAL FAILURES AND PROFITLESS COMPETITION, IN A WIDESPREAD RESTRUCTURING OF THE INDUSTRY. SPEAKERS' COMMENTS SUPPORTED IDEA THAT GOVERNMENTS SHOULD NOT TAKE ACTIONS WHICH WOULD DANGEROUSLY AGGRAVATE AN ALREADY EXTREMELY CRITICAL SITUATION AND SHOULD ONLY EXTEND FINANCIAL ASSISTANCE TO SECTORS OF THE MARITIME INDUSTRY WHERE COMMERCIALLY JUSTIFIED. FOLLOWING DINNER US OFFICIALS WERE ASKED IF US MIGHT NOT BE AGREEABLE TO HAVING REPRESENTATIVES OF US MARITIME INDUSTRY PARTICIPATE IN THE IMIF. END SUMMARY.

2. PRESS REPORTS OF THE IMIF MEETING FOCUSED ON THE CONCERN EXPRESSED BY SHIPOWNERS ON THE NEED TO IMPROVE RATES IN THE DEPRESSED TANKER MARKET. NORWEGIAN TANKER OWNERS AT THE OCTOBER MEETING OF THE INTERNATIONAL ASSOCIATION OF INDEPENDENT TANKER OWNERS IN HONG KONG OUTLINED A POSSIBLE ARRANGEMENT AMONG CONSENTING COMPANIES TO LAY UP AS MANY AS ONE OUT OF EVERY TWO OF THEIR LARGE TANKERS. COMMENTS AT THE IMIF MEETING INDICATED UNCLASSIFIED

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THE NORWEGIAN PROPOSAL HAD ATTRACTED THE INTEREST OF SHIPOWNERS OUTSIDE SCANDINAVIA. IT ALSO GENERATED THE MOST HEATED DISCUSSION OF THE MEETING. ACCORDING TO LLOYD'S LIST, OIL COMPANY REPRESENTATIVES ARGUED THAT THE NORWEGIAN PLAN WAS IMPRACTICAL. THEY RECKONED THAT THE AVERAGE VOYAGE RATE REQUIRED TO COVER A VLCC'S OPERATING COSTS IS NOW AROUND WORLDSCALE 32/35, WHILE CURRENT RATES FOR LONG-HAUL TRIPS ARE WORLDSCALE 27/28 AND ARE ONLY THAT HIGH DUE TO SEASONAL FACTORS. IF SHIPOWNERS TRIED TO PUSH RATES UP TO A LEVEL SUFFICIENT TO COVER OPERATING COSTS, OIL COMPANIES COULD REACTIVATE THE "VERY CONSIDERABLE SLACK IN THEIR OWN OPERATING SYSTEMS, AND THERE WOULD CONSEQUENTLY BE MUCH MORE THAN THE SUPERFICIAL SURPLUS TO BE ABSORBED." EMBASSY UNDERSTANDS THAT SHIPOWNERS ARGUED TO OIL COMPANIES THAT UNLESS THEY WERE PREPARED SOON TO PAY CHARTER RATES THAT WOULD AT LEAST COVER OPERATING COSTS, THEY WOULD WAKE UP TO FIND NO INDEPENDENT TANKER OWNERS TO TAKE CARE OF THEIR FLUCTUATIONS IN OIL CARRIAGE AND FIND THEMSELVES IN THE HANDS OF THE OIL PRODUCER STATES, THE EASTERN BLOC OR NATIONALIZED SHIPPING COMPANIES.

2. FOLLOWING THE DAY'S DISCUSSIONS, THE IMIF HELD A DINNER FOR THE PARTICIPANTS WHICH, ON INVITATION OF IMIF CHAIRMAN SIR JAMES DUNNETT, WAS ALSO ATTENDED BY A UK TREASURY OFFICIAL, THE SHIPPING ATTACHES OF THE FRG AND THE US, AND REAR ADMIRALS SIDNEY WALLACE AND RAYMOND WOOD OF THE US COAST GUARD, IN LONDON FOR THE BIENNIAL

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XMB-04 NSC-05 /102 W  
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ASSEMBLY OF THE IMCO. REAR ADMIRAL WALLACE, AT THE REQUEST OF DUNNETT, EXPLAINED THE US PROPOSALS ON TANKER SAFETY AND POLLUTION PREVENTION WHICH ARE TO BE CONSIDERED BY A FEBRUARY 1978 IMCO CONFERENCE. HE STRESSED THE US PUBLIC PRESSURE AND THE ADMINISTRATION'S COMMIT-

MENT TO IMPLEMENT ITS PROPOSALS TO INCREASE SAFETY AND  
REDUCE VESSEL SOURCE MARINE POLLUTION OR TO ADOPT  
ALTERNATIVE MEASURES TO PROVIDE EQUIVALENT PROTECTION.  
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HE EXPLAINED THE STATE OF PLAY OF THE DISCUSSIONS IN  
IMCO UP THROUGH THE OCTOBER IMCO PREPARATORY MEETING FOR  
THE FEBRUARY 1978 CONFERENCE, DWELLING PARTICULARLY ON  
THE US SEGREGATED BALLAST PROPOSALS AND THE CRUDE OIL  
WASHING ALTERNATIVE PROPOSAL FOR EXISTING TANKERS. THIS  
KNOWLEDGEABLE AUDIENCE APPEARED TO CONSIDER MOST SIGNI-  
FICANT HIS REAFFIRMATION OF THE SERIOUS US COMMITMENT  
TO ADOPTION OF NEW PROTECTIVE MEASURES. THEIR COMMENTS  
FOCUSED ON HOW THE CHANGES IN TANKERS THAT THE US AND  
OTHER PROPOSALS REQUIRED, PARTICULARLY SEGREGATED BALLAST  
AND INERT GAS SYSTEMS, COULD BE FINANCED AND WHAT THEIR  
COMMERCIAL AND FINANCIAL IMPACT WOULD BE ON TANKER  
OPERATIONS, CHARTERS AND SHIPYARDS. THEY STRESSED THAT  
NEW REQUIREMENTS SHOULD NOT CHANGE THE COMPETITIVE  
RELATIONSHIPS AMONG SHIPPING COMPANIES OR PUSH PRIVATE  
COMPANIES INTO MORE DIFFICULT CIRCUMSTANCES THAN THE  
PRESENT DEPRESSED TANKER MARKET HAD ALREADY CREATED.  
THESE REMARKS WERE CONSISTENT WITH RECENTLY ISSUED IMIF  
REPORT ON "THE CURRENT SHIPPING AND SHIPBUILDING CRISES  
AND THE FINANCIAL IMPLICATIONS OF VARIOUS FORMS OF  
GOVERNMENT INTERVENTION" (COPY SENT TO EB/MA).

3. DISCUSSION ALSO CENTERED ON THE SERIOUSNESS OF THE  
FINANCIAL DIFFICULTIES WHICH TANKER OWNERS WERE EXPERI-  
ENCING. IT WAS AGREED THAT SOME TANKER OWNERS WERE  
LIKELY TO GO BANKRUPT, BUT NO ONE WOULD IDENTIFY LIKELY  
CANDIDATES. FEAR OF SHIPOWNERS AND BANKERS IN GROUP WAS  
THAT GOVERNMENTS' SUPPORT TO THEIR SHIPYARDS WOULD  
RESULT IN NEW TANKER AND BULK CARRIER BUILDINGS WHICH  
WOULD CONTINUE AND WORSEN THE DEPRESSED MARKET (REFTTEL  
(A) REPORTS EC GOVERNMENTS' CONCERNS). IF THIS WERE TO  
OCCUR, SEVERAL SPEAKERS SAW DIRE RESULTS FOR PRIVATE  
SECTOR SHIPPING COMPANIES WITH SOME BEING NATIONALIZED TO  
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KEEP THEM IN BUSINESS AND OTHERS HAVING THEIR SHIPS  
PURCHASED FOR A FRACTION OF COST BY EASTERN BLOC AND  
OIL PRODUCER COUNTRIES. IN GENERAL THOSE WHO SPOKE  
SAID THAT THEY WOULD PREFER TO LIVE WITH THE PRESENT  
MARKET SITUATION AND TRY TO SURVIVE IT RATHER THAN HAVE  
LARGE AND DISRUPTIVE NEW GOVERNMENT SUBSIDIZATION. THEY

FEARED THAT CONCERNS ABOUT SHIPYARD EMPLOYMENT WOULD HAVE MORE INFLUENCE ON GOVERNMENTS THAN CONCERNS ABOUT THE LONG TERM HEALTH OF THE SHIPPING INDUSTRY. THE UK-POLISH SHIP CONSTRUCTION AGREEMENT (REFTEL (B)) HAS STIMULATED SIMILAR COMMENTS IN SHIPPING CIRCLES.

4. FOLLOWING DINNER DUNNETT REQUESTED ADMIRALS WALLACE AND WOOD AND EMBASSY SHIPPING ATTACHE TO SOUND OUT US OFFICIALS ON POSSIBILITY OF BUSINESSMEN ASSOCIATED WITH THE US MARITIME INDUSTRY, ESPECIALLY US BANKERS WHO PLAY AN IMPORTANT PART IN WORLD SHIP FINANCING, PARTICIPATING IN THE IMIF. HE NOTED THAT US MARITIME INDUSTRY PEOPLE HAD ORIGINALLY BEEN AFRAID TO PARTICIPATE OUT OF FEAR OF POSSIBLE US JUSTICE DEPARTMENT ACTIONS AGAINST THEM. HE STRESSED THAT IMIF'S AIM WAS TO FACILITATE DIALOGUE ON PROBLEMS WHICH CUT ACROSS THE VARIOUS SECTORS OF THE INDUSTRY AND NOT A GROUP ATTEMPTING TO FOSTER ANTI-COMPETITIVE ARRANGEMENTS WHICH WOULD BE CONTRARY TO US ANTI-TRUST LAWS. THE NEXT MEETING OF THE FORUM IS SCHEDULED FOR FEB. 1978.

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## Message Attributes

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**TAGS:** EWWT, IMCO  
**To:** STATE  
**Type:** TE  
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